

QUESTIONNAIRE FOR FILING PROPOSED RULES WITH
THE ARKANSAS LEGISLATIVE COUNCIL AND JOINT INTERIM COMMITTEE

DEPARTMENT/AGENCY Department of Education
DIVISION Public School Finance
DIVISION DIRECTOR Patricia Martin
CONTACT PERSON Patricia Martin
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INSTRUCTIONS

- A. Please make copies of this form for future use.
- B. Please answer each question completely using layman terms. You may use additional sheets, if necessary.
- C. If you have a method of indexing your rules, please give the proposed citation after "Short Title of this Rule" below.
- D. Submit two (2) copies of this questionnaire & financial impact statement attached to the front of two (2) copies of your proposed rule and required documents. Mail or deliver to:

Donna K. Davis
Subcommittee on Administrative Rules and Regulations
Arkansas Legislative Council
Bureau of Legislative Research
Room 315, State Capitol
Little Rock, AR 72201

- 1. What is the short title of this rule? Rules Governing the Process and Procedures for Best Financial Management Practices Review for Public School Districts
- 2. What is the subject of the proposed rule? The process and procedures for establishing and implementing a system for reviewing the financial management practices of public school districts.
- 3. Is this rule required to comply with federal statute or regulations? Yes _____ No X _____
If yes, please provide the federal regulation and/or statute citation.
- 4. Was this rule filed under the emergency provisions of the Administrative Procedures Act?
Yes _____ No X _____
If yes, what is the effective date of the emergency rule?

When does the emergency rule expire?

Will this emergency rule be promulgated under the permanent provisions of the Administrative Procedure Act? Yes _____ No X _____

5. Is this a new rule? Yes **X** No _____ If yes, please provide a brief summary explaining the regulation. Rules to set forth the process and procedures for establishing and implementing a system for reviewing the financial management practices of public school districts
- Does this repeal an existing rule? Yes _____ No **X** If yes, a copy of the repealed rule is to be included with your completed questionnaire. If it is being replaced with a new rule, please provide a summary of the rule giving an explanation of what the rule does.
- Is this an amendment to an existing rule? Yes _____ No **X** If yes, please attach a markup showing the changes in the existing rule and a summary of the substantive changes. **NOTE: The summary should explain what the amendment does, and the mark-up copy should be clearly labeled "mark-up."**
6. Cite the state law grants the authority for this proposed rule. If codified, please give Arkansas Code citation. **Act 35 of the Second Extraordinary Session of 2003**
7. What is the purpose of this proposed rule? Why is it necessary? **The purpose of this rule is to set forth the process and procedures for establishing and implementing a system for reviewing the financial management practices of public school districts. The rules are necessary to improve Arkansas school district management's use of resources and to identify possible cost savings.**
8. Will a public hearing be held on this proposed rule? Yes **X** No _____
If yes, please complete the following:
- Date: **May 12, 2004**
Time: **10 AM to 12 Noon**
Place: **ADE Auditorium, Little Rock, AR**
9. When does the public comment period expire for permanent promulgation? (Must provide a date.)
May 13, 2004
10. What is the proposed effective date of this proposed rule? (Must provide a date.)
July 1, 2004
11. Do you expect this rule to be controversial? Yes _____ No **X**
If yes, please explain.
12. Please give the names of persons, groups, or organizations that you expect to comment on these rules. Please provide their position (for or against) if known.
- **Arkansas Association of Educational Administrators**
 - **Arkansas School Boards Association**
 - **Arkansas Association of School Business Officials**
 - **Arkansas Education Association**
 - **Arkansas Education Service Cooperatives**

SUMMARY

The purpose of this rule is to set forth the process and procedures for establishing and implementing a system for reviewing the financial management practices of public school districts. The rules are necessary to improve Arkansas school district management's use of resources and to identify possible cost savings. The Department will work in conjunction with members of the Arkansas Association of Educational Administrators, Arkansas Association of School Business Officials, Arkansas Education Association, Arkansas Association of School Business Officials, and Arkansas Education Service Cooperatives to develop this system. The system will include the specific review criteria, grading criteria, and self-assessment instrument required by Act 35 of the Second Extraordinary Session of 2003.

FINANCIAL IMPACT STATEMENT

DEPARTMENT Education
DIVISION Public School Finance
PERSON COMPLETING THIS STATEMENT Patricia Martin
TELEPHONE NO. 682-5124 FAX NO. 682-9035 EMAIL pmartin@arkedu.k12.ar.us

To comply with Act 1104 of 1995, please complete the following Financial Impact Statement and file two copies with the questionnaire and proposed rules.

SHORT TITLE OF THIS RULE Rules Governing the Process and Procedures for Best Financial Management Practices Review for Public School Districts

1. Does this proposed, amended, or repealed rule or regulation have a financial impact? Yes x No _____
2. If you believe that the development of a financial impact statement is so speculative as to be cost prohibited, please explain.
3. If the purpose of this rule or regulation is to implement a federal rule or regulation, please give the incremental cost for implementing the regulation. Please indicate if the cost provided is the cost of the program.

Current Fiscal Year

General Revenue _____
Federal Funds _____
Cash Funds _____
Special Revenue _____
Other (Identify) _____

Total _____

Next Fiscal Year

General Revenue _____
Federal Funds _____
Cash Funds _____
Special Revenue _____
Other (Identify) _____

Total _____

4. What is the total estimated cost by fiscal year to any party subject to the proposed, amended, or repealed rule or regulation? Identify the party subject to the proposed regulation and explain how they are affected.

Current Fiscal Year

\$ _____

Next Fiscal Year (2005)

\$ _____

5. What is the total estimated cost by fiscal year to the agency to implement this regulation? **The Department of Education will be affected by the cost to implement this system. A manager and auditors will be needed to implement the system, travel expenditures will be needed to comply with on-site visit requirements, additional office space and office equipment will be needed.**

Current Fiscal Year

\$ _____

Next Fiscal Year

\$ 493,000 _____

DEPARTMENT OF EDUCATION
FISCAL IMPACT STATEMENT OF PROPOSED REGULATION
(In compliance with Acts 884 and 1253 of 1995)

Regulation Title: **Rules Governing the Process and Procedures for Best Financial Management Practices Review for Public School Districts**

Summary Description of Regulatory Proposal: **The purpose of this rule is to set forth the process and procedures for establishing and implementing a system for reviewing the financial management practices of public school districts. The rules are necessary to improve Arkansas school district management's use of resources and to identify possible cost savings.**

Cite Statutory Authority for this Regulatory Proposal: **Act 35 of the Second Extraordinary Session of 2003.**

I. Fiscal Impact on the Department: (include whether impacts are non-recurring or recurring)

A. Resources Required - Personnel, equipment, office space.

The Department of Education will be affected by the cost to implement this system. A manager and auditors will be needed to implement the system, travel expenditures will be needed to comply with on-site visit requirements, additional office space and office equipment will be needed.

It is estimated the Department will require 4 auditors to complete the onsite visits required by Act 35, with a manager. Additional costs for travel expenditures, office space and office equipment will be needed. Total cost is estimated to be \$493,000.

B. Time Required for Implementation.

C. Procedural Changes.

D. Other.

II. Fiscal Impact on Local School District or Others? (Include whether impacts are non-recurring or recurring)

A. Resources Required - Personnel, equipment, office space.

B. Time Required for Implementation.

C. Procedural Changes.

D. Other.

III. Additional Comments.

Prepared by: (Name) Patricia Martin
(Title) Assistant Director
(Date) April 8, 2004

**Arkansas Department of Education
Proposed Rules Governing Procedures
For Best Financial Management Practices Review
For Public School Districts**

1.00 Regulatory Authority

- 1.00 These rules shall be known as the Arkansas Department of Education Rules Governing the Process and Procedures for Best Financial Management Practices Review for Public School Districts.
- 1.01 These rules are enacted pursuant to the Arkansas State Board of Education's authority under Arkansas Code Ann. §6-11-105 and Section 9 of Act 35 of the Second Extraordinary Session of 2003.

2.00 Purpose

- 2.01 The purpose of these rules is to set forth the process and procedures for establishing and implementing a system for reviewing the financial management practices of public school districts.
- 2.02 The purposes of Best Financial Management Practices reviews are to improve Arkansas school district management's use of resources and to identify possible cost savings.

3.00 Definitions

For purposes of the rules and unless otherwise specifically stated herein, the following terms shall mean:

- 3.01 Administrative Technology – Use of technology for administrative management functions.
- 3.02 Department – The Department of Education.
- 3.03 Instructional Technology – The use of technology to support or to enhance classroom instruction.
- 3.04 Legislative Audit – The Division of Legislative Audit of the Legislative Joint Auditing Committee of the General Assembly.
- 3.05 Management Structures – The organizational model used to administer the school district.

- 3.06 Performance Accountability – Accountability system which ensures that students are progressing in academic achievement.
- 3.07 Public Accountability – Procedures in place to ensure that the public is accurately informed regarding the school and its comprehensive educational plan to improve student achievement.
- 3.08 Self-Assessment Instrument – An evaluation instrument developed by the Department of Education which guides the district in assessing the district's status on each of the identified best practices.
- 3.09 State Board – The State Board of Education.

4.00 Process and Procedures for Establishing and Implementing a System for Reviewing the Financial Management Practices of Public School Districts

- 4.01 The Department shall comply with the following deadlines for implementation of the system of review:
 - 4.01.1 The Department shall develop the Best Financial Management Practices review criteria by March 31, 2005.
 - 4.01.2 The Department shall develop a self-assessment instrument regarding each of the adopted Best Financial Management Practices by June 30, 2005.
 - 4.01.3 The Department shall develop the grading criteria by December 31, 2005.
 - 4.01.4 Once each of the criteria has been developed, the Department shall work with districts that have volunteered to pilot the review procedures to establish and improve the implementation of the system of review.
 - 4.01.5 The Department shall present the Best Financial Management Practices review criteria to the State Board by May 31, 2006.
 - 4.01.6 The Department shall begin the Best Financial Management Practices reviews during the 2007 fiscal year.
- 4.02 The Department shall develop the Best Financial Management Practices review criteria, grading criteria, and self-assessment instrument in cooperation with the Arkansas Association of School Administrators, the Arkansas School Business Officials, the Division of Legislative Audit, and other education interest groups.
- 4.03 The Best Financial Management Practices review criteria, grading criteria, and self-assessment instrument shall comply with the terms of this Rule.

5.00 Areas Included in Best Financial Management Practices

Best Financial Management Practices shall be developed for, but need not be limited to, the following areas:

- 5.01 Management structures
- 5.02 Performance accountability
- 5.03 Efficient delivery of educational services, including instructional materials
- 5.04 Administrative and instructional technology
- 5.05 Personnel systems and benefits management
- 5.06 Facilities construction
- 5.07 Facilities maintenance
- 5.08 Student transportation
- 5.09 Food service operations
- 5.10 Cost control systems, including asset management, risk management, financial management, purchasing, internal auditing, and financial auditing
- 5.11 Athletics
- 5.12 Other extracurricular activities

6.00 Responsibility

- 6.01 The Department of Education and the Division of Legislative Audit of the Legislative Joint Auditing Committee are directed to develop a system for reviewing the Financial Management Practices of public school districts.
- 6.02 The Division of Legislative Audit shall assist the Department of Education in examining district's operations to determine if public school districts meet the Best Financial Management Practices as established.

- 6.03 The State Board of Education shall adopt the Best Financial Management Practices in those areas set forth in section 5.00.

7.00 Periodic Review and Revision

- 7.00 The Best Financial Management Practices adopted by the State Board of Education may be updated periodically after consultation with the Governor, Legislative Council, school districts, Legislative Audit, and the Department of Education.
- 7.01 The Department shall submit proposed revisions to the State Board for review.
- 7.02 The State Board may adopt, revise, or reject the proposed revisions to the Best Financial Management Practices.
- 7.03 Revised Best Financial Management Practices adopted by the State Board of Education shall be used in the next scheduled school district reviews conducted.

8.00 District Self-Assessment

- 8.01 The Department of Education shall develop a self-assessment instrument regarding each of the adopted Best Financial Management Practices.
- 8.02 The district must begin the self-assessment sixty (60) days prior to the beginning of the district's review of Best Financial Management Practices.
- 8.03 The completed self-assessment instrument and supporting documentation shall be submitted to the Department no later than the date of commencement of the review.
- 8.04 The self-assessment information will be used by the review team during the review.

9.00 Reviews

- 9.01 The Department of Education shall conduct the reviews of Best Financial Management Practices. All public school districts shall be reviewed biennially by an on-site visit.
- 9.02 The scope of the review shall focus on the Best Financial Management Practices adopted by the State Board of Education.

- 9.03 Each public school district reviewed shall be given one of the following designations:
 - 9.03.1 “A”, schools comprehensively complying with Best Financial Practices.
 - 9.03.2 “B”, schools complying with Best Financial Management Practices at significant levels
 - 9.03.3 “C”, schools adequately complying with Best Financial Management Practices.
 - 9.03.4 “D”, schools less than adequately complying with Best Financial Management Practices.
 - 9.03.5 “F”, schools failing to comply with best financial management Practices.
- 9.04 The Department may request Legislative Audit to conduct the reviews or may contract with a private firm to perform the required reviews. The private firm must be selected through a formal request for proposal process.
- 9.05 The Department shall prepare annual reports regarding the results of the Best Financial Management Practices Reviews.
- 9.06 Grades awarded to school districts regarding their Best Financial Management Practices Review shall be posted to the Department’s website.
- 9.07 The report regarding a district’s results from the Best Financial Management Practices review shall be part of the district’s annual report card as required by A.C.A. 6-15-1806.
- 9.08 The report shall include both revenue sources and expenditures.
- 9.09 The expenditures report shall include a breakdown of administrative, instructional, support, and operations expenditures.
- 9.10 District Best Financial Management Practices reviews shall be completed within six months after commencement.
- 9.11 The Department shall issue a final report to Legislative Council regarding a district’s use of Best Financial Management Practices within sixty (60) days after completing the review.
- 9.12 Copies of the final report for each district’s review of Best Financial Management Practices shall be provided to the Governor, the State Board of Education, the district superintendent and the district’s school board members.

10.00 Required Remedial Action Plan

- 10.01 If a district receives a designation of “F” from the review of Best Financial Management Practices, then the final report must contain an action plan detailing how the district can meet the Best Financial Management Practices within two (2) years.
- 10.02 The district school board shall develop an implementation plan and approve the plan within sixty (60) days after receipt of the final report.
- 10.03 Failure to adopt the action plan within sixty (60) days after the receipt of the final report will require that the district superintendent and board members appear before the State Board and the Legislative Council to present testimony regarding their failure to comply.
- 10.04 Within sixty (60) days after receipt of the final report, the district school board shall notify the State Board and the Department in writing regarding the implementation schedule for the Action Plan.
- 10.05 The district shall submit an initial status report to the Governor, State Board, Legislative Audit, the Department of Education and Legislative Council outlining progress made toward implementing the Action Plan.
- 10.06 A second status report shall be submitted no later than six (6) months after submission of the initial report to the Governor, State Board, Legislative Audit, Department of Education, and Legislative Council. This process shall continue every six (6) months thereafter, until status reports are not required.
- 10.07 Status reports are not required once the district is designated a grade category of “A” for its financial practices.
- 10.08 Districts shall maintain documentation to enable independent verification of the implementation of the Action Plan.

11.00 Public Notice

- 11.01 During the district review of Best Financial Management Practices, the Department or the consultant conducting the review shall hold at least one (1) advertised public forum as part of the review.

11.02 The purpose of the public forum will be to explain the Best Financial Management Practices review process and to obtain input from students, parents, the business community, and other stakeholders regarding their concerns about the operations and management of the school district.

11.03 The district superintendent shall notify the press when the district's final report from the review of the district's Best Financial Management Practices has been received. The notification shall state the Department's website at which an electronic copy of the report is available.

12.00 Seal of Best Financial Management

12.01 School districts determined in their Best Financial Management Practices review to be using the best practices and are awarded a grade of "A" shall receive a "Seal of Best Financial Management."

12.02 The designation shall be effective until a district's financial accountability grade decreases.

12.03 The State Board shall revoke the designation of a district at any time if it is determined that the district is no longer complying with the adopted Best Financial Management Practices.

13.00 Cost Savings

13.01 Unrestricted cost savings resulting from implementation of the Best Financial Management Practices shall be spent at the school and classroom levels for teacher salaries, professional development, facilities, student supplies, textbooks, classroom technology, and other direct student instructional activities.

13.02 Cost savings identified for a restricted expenditure shall be used to enhance that specific program.

13.03 If a district is in fiscal distress, the cost savings may be used in accordance with the fiscal distress plan.